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SUBJECT: WWF HOSTS NEW ELECTRICITY SUPPLY ROUDTABLE DISCUSSIONS IN
JOHANNESBURG

REF: Pretoria 2498 and previous

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Summary

¶1. (U) The World Wide Fund for Nature (WWF) in South Africa hosted a one-day "National Roundtable on New Electricity Supply" on November 18 in Johannesburg. The meeting was a follow up to calls from various stakeholders in the energy sector who attended the National Climate Change Summit in March of this year. WWF convened the meeting in light of Eskom's imminent decision on investment in construction of the coal-based Medupi and Kusile power stations in December 2009. Over 100 delegates from government, business, civil society and academia attended the meeting to explore possible ways to engage the public in the process of securing electricity supply. Stakeholders raised concerns that South Africa's energy supply imposed externalized costs that are carried by the ordinary folk, while big companies benefited. Government said tariff hikes were inescapable, but plans had to be made to ease the burden on the poor. The absence of key government players weighted the discussion somewhat toward the "green" perspective, generally critical of Eskom, South Africa's power parastatal. Nonetheless, the WWF-hosted roundtable discussion provided useful context to the debates underway within South Africa on energy and environmental policy. COSATU reported on its renewable energy resolution and the Energy Research Center at the University of Cape Town presented a power planning tool. End Summary.

¶2. (U) Background: State-owned Eskom is South Africa's sole and largest supplier of electricity, generating over 95 percent of electricity in the country. Dire electricity supply shortfalls, which resulted in numerous power supply cuts in early 2008, prompted the power utility to increase its capital expansion program. The estimated value of the program in 2009 is R385 billion (\$51.4 billion) over five years. Credit, equity, and tariff hikes would be the major sources of funding. The bulk of the funding would go to the Medupi power station in Limpopo province, valued at R100 billion (\$13, 33 billion), and the Kusile power station in Mpumalanga province, valued at R111 billion (14, 48 billion). Both coal-based projects are expected to generate 4,800MW (total of 9,600MW). The balance of the fund would go to numerous other projects located around the country. They include the Ingula Pumped Storage Scheme in Kwa-Zulu Natal, Gas Turbine Capacity in the Eastern Cape, and Wind Farm Capacity in the Western Cape provinces. Eskom has been struggling to find expansion funds as the global recession tightened credit markets. Eskom lost both its CEO Jacob Maroga and Chairman Bobby Godsell in early November (Reftel). The two have since been replaced by acting CEO/Chairman Mpho Makwana, a board member since ¶2002.

Eskom Claims to Aim for Low Carbon Emissions

13. (U) Wendy Poulton of Eskom told delegates that Eskom's expansion would be taken in the context of lowering carbon emissions. She emphasized that Eskom was committed to addressing uncertainties in electricity supply, arguing that there is a sufficient energy mix to meet South Africa's electricity demand, and that the technology to exploit it also exists. Poulton said that when taking investment decisions, Eskom would strive to transform a non-commercially viable scenario to a commercially viable one. She elaborated that the power supplier would consider primary resources, skills, manufacturing, land, water, independent power producers (IPP), renewable energy feed-in tariffs (REFIT) and stakeholders' roles. They would investigate trade-offs between the costs required and new technology investments. Eskom would adopt the Integrated Energy Plan approach, which implies broader consultation with interested parties. Further aspirations are to look for alternatives to coal, while key policy issues in 2009 were energy efficiency, conservation, nuclear, climate change, IPP, and energy mix. Through the guidance of the Energy Resource Development Strategy, they would investigate locations for new generation, available water infrastructure, transportation, funding tariff levels, the enabling environment, socio-economic development, domestic markets and exports, and allocation strategies.

Tariff Hikes Inescapable

14. (U) In what sounded like a defense of Eskom's proposed 45 percent tariff hikes in each of the next three years (a proposal since revised to 35 percent per year), the Deputy Minister of Science and Technology Derek Hanekom said that it is a "good and necessary"

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evil, because it would force people to make the right choices about energy consumption. He said this was inescapable, but government is also aware that such a measure would hit poor people the hardest. Hanekom said there is a need for a funding model for poor communities, including free basic electricity supply, because it is a basic right of citizens to have access to energy. He said there should be a cross-subsidy component, sliding scale tariffs and differentiation in electricity pricing. The Deputy Minister added that authorities should make accurate cost projections that cover the potential value of jobs created or lost, as well as health-related costs.

15. (U) Kevin Nassiep of the South African National Energy Research Initiative (SANERI) said South Africa needs to localize the benefits of research and development (R&D) in energy and alternative energies. He said the country needs external technical assistance; while there is potential for renewable energy development, South Africa has been unable to reach its renewable targets. Nassiep said there was no need to subsidize energy initiatives; they only needed to be coordinated better. He said what is required are skills and capacity to exploit existing opportunities and resources. In his view, these can be acquired through proper primary and higher education training. He called for the responsible use of fuels, and for manufacturers of synthetic fuels like SASOL to adopt cleaner technologies. Nassiep lauded South Africa's Carbon Capture and Storage initiative as a step in the right direction in the fight against climate change.

Lack of Potent Government Intervention

16. (U) A senior researcher at the Institute for Security Studies (ISS), Trusha Reddy, argued that there is a lack of proper political intervention on accountability in Eskom. She said there is a need to revisit the corporate operations and activities of the energy supplier against its government mandate. Reddy cautioned that failure to address responsible governance could be perceived as

potential corruption. She noted that the separation of the Departments of Energy and Mining was lauded by interested parties, but so far this has not prompted better management in Eskom. Reddy also noted that the Integrated Energy Plan published in 2004 revealed inadequate provision for stakeholder participation, and shortcomings in the process and output. Eskom refused to review or repeal contracts with big companies, which have been big beneficiaries of cheap electricity. Reddy opined that government should set boundaries for Eskom and the regulators. She argued that government should establish independent structures for oversight of institutional relations and plans.

A case for Civil Society

¶7. (U) Liz McDaid of the NGO Green Connection lamented that Eskom's proposed rate increases would impact heavily on the poor. She said that although alternatives were available, they were generally too expensive for poor people if not subsidized. She added that funds allocated for such subsidies has often been siphoned off or misdirected, and this is a problem that needs prompt attention. Meanwhile a representative of the Congress of South African Trade Unions (COSATU) Jonas Mosia said that his organization had passed a QUnions (COSATU) Jonas Mosia said that his organization had passed a new resolution on climate change at their recent congress. He said this demonstrated that COSATU understands the case for a low carbon economy and renewable energy. Mosia added that stakeholders should find synergy between energy sector development and the creation of jobs.

¶8. (U) WWF representative Richard Worthington said it is already costly to keep temperatures under 2 degrees Celsius to avoid runaway climate change.. He said climate change costs the world up to half a trillion dollars per annum. Worthington said that if effective climate change action is not taken soon, after five years there will be no hope of ever bringing it under control. According to the WWF, a low carbon re-industrialization with effective government involvement is the way of the future for South Africa. In Worthington's view, the opportunities to be derived from taking a low-carbon economy route far outweigh the costs of delay; South Africa should also be taking a leading role in the region and continent, considering the abundance of renewable energies in the country.

¶9. (U) Participants in the roundtable called on the Cabinet to take decisive action and to coordinate the already fragmented responsibilities on energy affairs. Delegates argued for more public debate on the energy mix. Jobs, technologies, poverty

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alleviation and human capacity development should all be included in the debate. The delegates called for a permanent forum for stakeholders to be established, and for tariffs for rural and urban areas to be different. Delegates asked that the role of the Department of National Planning in the presidency to be clearly defined on energy affairs and a "Port of Call" on energy planning to be identified.

New Tool for Electricity Supply Projections

¶10. (U) The Energy Research Center of the University of Cape Town presented an Excel spreadsheet program it has developed, called Sustainable National Accessible Power Planning (SNAPP). SNAPP provides technical rigor for users who wish to develop plausible detailed future electricity scenarios. Developers of SNAPP said it is very easy to use and convenient for planning purposes. For example, it enables the user to specify future investment in the electricity system and calculates the costs of investment and requirements. The program allows the user to determine the probable impact of the cost of energy generation, emission implications and instantaneous results to queries about reliable electricity systems. SNAPP was developed to improve on traditional electricity planning systems that were based on complex models, but were difficult and

expensive to run. Unlike SNAPP, the old planning models covered a small range of alternatives leaving many other options unexplored. Presenters said SNAPP can be used by local and provincial governments, as well as major industrial and manufacturing sectors in planning their energy supply systems.

Comment

¶11. (U) The WWF's initiative to organize the electricity supply roundtable was commended by all attendees. Unfortunately, the key stakeholders of the South African Department of Energy and the National Energy Regulator (Nersa) were conspicuously absent. The two interested departments might well have benefited from stakeholder comments and would have been able to share important input, since they are responsible for policy-making and electricity supply regulation, respectively. The participants called for further meetings and the establishment of a permanent forum to represent interested stakeholders in future policymaking debates.

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